CITY OF SHELBY
RICHLAND COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2017

Dave Yost • Auditor of State

**CITY OF SHELBY**
**RICHLAND COUNTY**

## TABLE OF CONTENTS

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## INDEPENDENT AUDITOR'S REPORT

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 18 to the financial statements, beginning balance in the private purpose trust fund has been restated due to omission of this fund in 2016. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of pension liabilities and pension contributions, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary Information*

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dave Yost

**Dave Yost**
Auditor of State
Columbus, Ohio

August 28, 2018

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The City of Shelby's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

## Financial Highlights

- The City's total net position increased $1,108,098. Net position of governmental activities increased $1,283,465, net position of business-type activities decreased by $175,367.

- The General Fund reported a fund balance of $1,040,848.

- Business-type operations reflected an operating loss of $174,507.

## Overview of the Financial Statements

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City's financial situation as a whole and to give a detailed view of the City's fiscal condition.

The Statement of Net Position and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

## Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Shelby is financially better off or worse off as a result of the year's activities. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes to net position. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well being. Some of these factors include the City's tax base and the condition of capital assets.

In the Government-wide Financial Statements, the City is divided into two kinds of activities.

- Governmental Activities - Most of the City's programs and services are reported here including general government, public health and welfare, transportation and street repair, community development, and leisure time activity. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and State grants and other shared revenues.

- Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General Fund and the Streets, Alleys & Basin Rehab Fund.

***Governmental Funds*** - Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

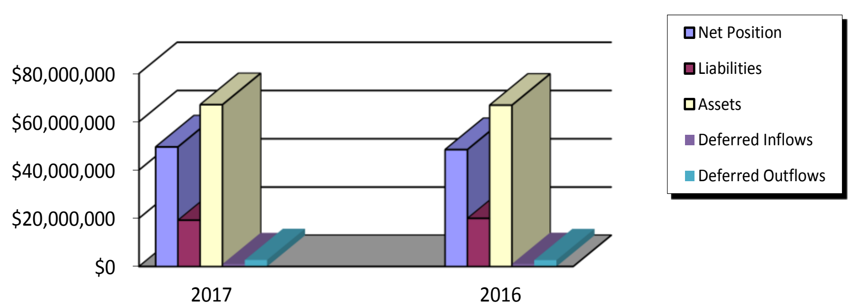
***Fiduciary Funds -*** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## The City as a Whole

As stated previously, the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to 2016.

**Table 1**
**Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Assets: | | | | | | |
| Current and Other Assets | $6,384,785 | $6,487,998 | $11,441,880 | $11,410,205 | $17,826,665 | $17,898,203 |
| Capital Assets | 23,706,428 | 22,604,303 | 25,584,282 | 26,377,379 | 49,290,710 | 48,981,682 |
| Total Assets | 30,091,213 | 29,092,301 | 37,026,162 | 37,787,584 | 67,117,375 | 66,879,885 |
| Deferred Outflows of Resources: | | | | | | |
| Pension | 1,550,096 | 1,713,660 | 1,162,217 | 939,242 | 2,712,313 | 2,652,902 |
| Total Deferred Outflows of Resources | 1,550,096 | 1,713,660 | 1,162,217 | 939,242 | 2,712,313 | 2,652,902 |
| Liabilities: | | | | | | |
| Long-Term Liabilities | 13,047,012 | 13,424,600 | 4,934,389 | 5,264,223 | 17,981,401 | 18,688,823 |
| Other Liabilities | 258,414 | 350,560 | 982,887 | 947,526 | 1,241,301 | 1,298,086 |
| Total Liabilities | 13,305,426 | 13,775,160 | 5,917,276 | 6,211,749 | 19,222,702 | 19,986,909 |
| Deferred Inflows of Resources: | | | | | | |
| Property Taxes | 549,936 | 611,805 | 0 | 0 | 549,936 | 611,805 |
| Pension | 391,168 | 307,682 | 75,596 | 144,203 | 466,764 | 451,885 |
| Total Deferred Inflows of Resources | 941,104 | 919,487 | 75,596 | 144,203 | 1,016,700 | 1,063,690 |
| Net Position: | | | | | | |
| Net Investment In Capital Assets | 17,977,492 | 16,260,429 | 24,046,489 | 24,462,859 | 42,023,981 | 40,723,288 |
| Restricted | 3,692,861 | 3,751,434 | 0 | 0 | 3,692,861 | 3,751,434 |
| Unrestricted | (4,275,574) | (3,900,549) | 8,149,018 | 7,908,015 | 3,873,444 | 4,007,466 |
| Total Net Position | $17,394,779 | $16,111,314 | $32,195,507 | $32,370,874 | $49,590,286 | $48,482,188 |




Total net position of the City as a whole increased $1,108,098. Net position of the City's governmental activities increased $1,283,465, while the net position of the City's business-type activities decreased

$175,367 from 2016. The City had an unrestricted net position balance of $3,873,444 that may be used to meet the government's ongoing obligations to citizens and creditors.

Long-Term Liabilities decreased mainly due to the payoff of outstanding debt during 2017.

Table 2 shows the changes in net position for the year ended December 31, 2017 and revenue and expense comparisons to 2016.

**Table 2**
**Changes in Net Position**

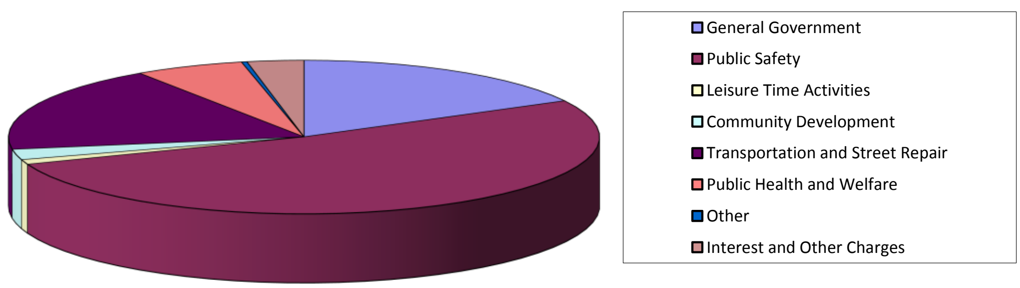
| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Program Revenues: | | | | | | |
| Charges for Services | $1,460,660 | $1,422,381 | $15,719,039 | $15,560,477 | $17,179,699 | $16,982,858 |
| Operating Grants and Contributions | 862,750 | 790,742 | 0 | 9,754 | 862,750 | 800,496 |
| Capital Grants and Contributions | 1,154,032 | 1,449,994 | 115,942 | 179,360 | 1,269,974 | 1,629,354 |
| Total Program Revenues | 3,477,442 | 3,663,117 | 15,834,981 | 15,749,591 | 19,312,423 | 19,412,708 |
| General Revenues: | | | | | | |
| Income Taxes | 3,672,549 | 3,718,639 | 0 | 0 | 3,672,549 | 3,718,639 |
| Property Taxes | 651,288 | 586,567 | 0 | 0 | 651,288 | 586,567 |
| Grants and Entitlements | 304,819 | 340,367 | 0 | 0 | 304,819 | 340,367 |
| Investment Earnings | 21,871 | 14,546 | 17,524 | 13,953 | 39,395 | 28,499 |
| Other Revenues | 650,250 | 521,376 | 142,491 | 70,566 | 792,741 | 591,942 |
| Total General Revenues | 5,300,777 | 5,181,495 | 160,015 | 84,519 | 5,460,792 | 5,266,014 |
| Total Revenues | 8,778,219 | 8,844,612 | 15,994,996 | 15,834,110 | 24,773,215 | 24,678,722 |
| Program Expenses: | | | | | | |
| General Government | 1,282,016 | 1,265,176 | 0 | 0 | 1,282,016 | 1,265,176 |
| Public Safety | 3,900,865 | 3,707,142 | 0 | 0 | 3,900,865 | 3,707,142 |
| Leisure Time Activities | 76,918 | 77,043 | 0 | 0 | 76,918 | 77,043 |
| Community Development | 167,125 | 228,641 | 0 | 0 | 167,125 | 228,641 |
| Transportation and Street Repair | 1,358,796 | 2,119,621 | 0 | 0 | 1,358,796 | 2,119,621 |
| Public Health and Welfare | 448,774 | 377,658 | 0 | 0 | 448,774 | 377,658 |
| Other | 25,223 | 28,100 | 0 | 0 | 25,223 | 28,100 |
| Interest and Other Charges | 235,037 | 254,650 | 0 | 0 | 235,037 | 254,650 |
| Sewer | 0 | 0 | 1,796,957 | 1,413,731 | 1,796,957 | 1,413,731 |
| Water | 0 | 0 | 2,390,500 | 2,295,005 | 2,390,500 | 2,295,005 |
| Electric | 0 | 0 | 11,982,906 | 11,543,040 | 11,982,906 | 11,543,040 |
| Total Program Expenses | 7,494,754 | 8,058,031 | 16,170,363 | 15,251,776 | 23,665,117 | 23,309,807 |
| Change in Net Position | 1,283,465 | 786,581 | (175,367) | 582,334 | 1,108,098 | 1,368,915 |
| Net Position - Beginning of Year | 16,111,314 | 15,324,733 | 32,370,874 | 31,788,540 | 48,482,187 | 47,113,273 |
| Net Position - End of Year | $17,394,779 | $16,111,314 | $32,195,507 | $32,370,874 | $49,590,285 | $48,482,188 |

### *Governmental Activities*

The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 69% of the City's governmental activities total general revenue. There was a significant decrease in the Streets, Alleys, and Basin Rehab Fund.

Governmental Activities
Program Expenses for 2017

| Program Expenses | Percentage |
|---|---|
| General Government | 17.2% |
| Public Safety | 52.0% |
| Leisure Time Activities | 1.0% |
| Community Development | 2.2% |
| Transportation and Street Repair | 18.2% |
| Public Health and Welfare | 6.0% |
| Other | 0.3% |
| Interest and Other Charges | 3.1% |
| Total | 100.0% |




General Government includes legislative and administration expenses, including City Council, the Mayor's office, Civil Service, Finance, Building and Zoning programs, and various non-department charges.

### *Business-Type Activities*

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of $15,861,531 and operating expenses of $16,036,038 for fiscal year 2017. Business activities receive no support from tax revenues. The business activities (on the fund level) net position at the end of the year was $32,221,971, which decreased $133,977 from 2016.

### The City's Funds

The City has two major governmental funds: the General Fund and Streets, Alleys & Basin Rehab Fund. Assets of the major governmental funds comprised $2,393,246 (39%), of the total $6,088,223 governmental funds' assets.

***General Fund***: Fund balance at December 31, 2017 was $1,040,848.

***Streets, Alleys, and Basin Rehab Fund:*** Fund balance as of December 31, 2017 was $395,022.

### *General Fund Budgeting Highlights*

The City's General Fund budget is formally adopted at the program or budget center level. Financial reports, which compare actual performance with the budget, are prepared monthly and presented to the Council so the Council is able to review the financial status and measure the effectiveness of the budgetary controls.

As the City completed the year, its General Fund balance reported an actual fund balance of $625,659, on a Non-GAAP Budgetary Basis.

There were no significant variations from the original budget amounts to the final budget amounts.

## Capital Assets and Debt Administration

### *Capital Assets*

At year end, the City had $49,290,710 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2017 balances compared to 2016:

**Table 3**
**Capital Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | $386,331 | $405,871 | $233,440 | $233,440 | $619,771 | $639,311 |
| Construction in Progress | 3,175,964 | 1,466,742 | 1,058,900 | 1,237,310 | 4,234,864 | 2,704,052 |
| Buildings and Improvements | 10,743,487 | 10,743,487 | 14,193,662 | 14,193,662 | 24,937,149 | 24,937,149 |
| Equipment | 5,152,998 | 4,927,619 | 30,055,029 | 29,620,744 | 35,208,027 | 34,548,363 |
| Infrastructure | 20,741,108 | 20,741,108 | 25,249,364 | 24,944,924 | 45,990,472 | 45,686,032 |
| Accumulated Depreciation | (16,493,460) | (15,680,524) | (45,206,113) | (43,852,701) | (61,699,573) | (59,533,225) |
| Total Net Capital Assets | $23,706,428 | $22,604,303 | $25,584,282 | $26,377,379 | $49,290,710 | $48,981,682 |

See Note 8 to the basic financial statements for further details on the City's capital assets.

### *Debt*

The City had $5,728,936 in bonds and loans outstanding for Governmental Activities and $1,537,793 in loans outstanding for Business-Type Activities.

**Table 4**
**Outstanding Debt at Year End**

| | | 2017 | 2016 |
|---|---|---|---|
| Governmental Activities: | | | |
| Special Assessment Bonds: | | | |
| Street Improvement - Fox Run 7 | 4.25% | $20,649 | $41,296 |
| Street Improvement - Series 2016 | | $0 | $400,000 |
| Total Special Assessment Bonds | | 20,649 | 441,296 |
| General Obligation Bonds: | | | |
| Fire Truck Series 2018 | 4.75% | 25,000 | 50,000 |
| 2011 Municipal Justice Center Improvements | 4.10% | 5,570,000 | 5,725,000 |
| Premium on Bonds | | 113,287 | 119,455 |
| Total General Obligation Bonds | | 5,708,287 | 5,894,455 |
| OPWC Loan: | | | |
| Wareham Road | 0.00% | 0 | 8,123 |
| Total Governmental Activities Debt | | 5,728,936 | 6,343,874 |
| Business-Type Activities: | | | |
| OWDA Loans: | | | |
| OPWC - CP425 | 0.00% | 164,659 | 182,955 |
| WTP upgrade | 2.75% | 953,980 | 1,210,210 |
| WWTP Improvements | 1.00% | 419,154 | 521,355 |
| Total OWDA Loans | | 1,537,793 | 1,914,520 |
| Total Business-Type Activities Debt | | 1,537,793 | 1,914,520 |
| Total Debt | | $7,266,729 | $8,258,394 |

See Note 10 to the basic financial statements for further details on the City's long-term debt.

**Economic Outlook**

Since the 1800's the City has been known for its talented work force, which continues to be innovative, productive and stable. The City's industrial base continues to be strong and competitive, producing and shipping goods and materials around the world. While national trends reflect mergers and consolidations, the City has been aggressive and successful in adapting to these changing times by creating new opportunities. In 2009 a substantial number of homes were demolished due to the flood of 2007. Where some of these homes were created, there is now an exciting opportunity to develop a park located near the City's Central Business District.

The Shelby Park board was aggressive seeking grants and donations for the Black Fork Park. They received $117,000 from one local foundation organization and $70,000 from another. This project will lead to a new park located downtown as a center of entertainment.

The Technology Parkway area is creating excitement about increased business within the City. The Kehoe Center continues to grow with North Central State University. North Central State University currently has 950 students attending classes at the Kehoe Center campus and a four-year degree is possible in business or engineering on the Shelby Campus.

Several new business started operation in 2017. They include retail and food establishments. Several current business remodeled or updated their operations. A large manufacturing company started to construct a new building located on Technology Parkway.

The City relies upon grants, entitlements, property and income taxes to fund the general services of the City. The City also has experienced revenue stagnation as other communities in Ohio, but has contained its operation expenses.

The City is proud of continuing to meet the needs of its citizens, employees and vendors through cooperation, hard work and determination.

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steven Lifer, Finance Director, 43 W. Main Street, Shelby, Ohio, 44875.

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City of Shelby, Ohio
Statement of Net Position
December 31, 2017

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| Assets: | | | |
| Equity in Pooled Cash and Investments | $3,672,369 | $8,450,808 | $12,123,177 |
| Cash and Cash Equivalents with Fiscal Agent | 270,098 | 0 | 270,098 |
| Receivables (Net): | | | |
| Taxes | 1,726,121 | 0 | 1,726,121 |
| Accounts | 45,215 | 1,731,676 | 1,776,891 |
| Intergovernmental | 455,264 | 0 | 455,264 |
| Special Assessments | 10,827 | 0 | 10,827 |
| Internal Balances | 26,464 | (26,464) | 0 |
| Inventory | 132,477 | 948,991 | 1,081,468 |
| Investment in Joint Venture | 0 | 189,955 | 189,955 |
| Prepaid Items | 45,950 | 146,914 | 192,864 |
| Nondepreciable Capital Assets | 3,562,295 | 1,292,340 | 4,854,635 |
| Depreciable Capital Assets, Net | 20,144,133 | 24,291,942 | 44,436,075 |
| Total Assets | 30,091,213 | 37,026,162 | 67,117,375 |
| Deferred Outflows of Resources: | | | |
| Pension | 1,550,096 | 1,162,217 | 2,712,313 |
| Total Deferred Outflows of Resources | 1,550,096 | 1,162,217 | 2,712,313 |
| Liabilities: | | | |
| Accounts Payable | 44,720 | 882,541 | 927,261 |
| Accrued Wages and Benefits | 154,468 | 87,229 | 241,697 |
| Accrued Interest Payable | 18,864 | 13,117 | 31,981 |
| Claims Payable | 40,362 | 0 | 40,362 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 281,462 | 471,234 | 752,696 |
| Due In More Than One Year | | | |
| Net Pension Liability | 6,817,879 | 3,042,642 | 9,860,521 |
| Other Amounts | 5,947,671 | 1,420,513 | 7,368,184 |
| Total Liabilities | 13,305,426 | 5,917,276 | 19,222,702 |
| Deferred Inflows of Resources: | | | |
| Property Taxes | 549,936 | 0 | 549,936 |
| Pension | 391,168 | 75,596 | 466,764 |
| Total Deferred Inflows of Resources | 941,104 | 75,596 | 1,016,700 |
| Net Position: | | | |
| Net Investment in Capital Assets | 17,977,492 | 24,046,489 | 42,023,981 |
| Restricted for: | | | |
| Debt Service | 500,578 | 0 | 500,578 |
| Capital Projects | 1,866,233 | 0 | 1,866,233 |
| Street Maintenance, Construction and Repair | 346,649 | 0 | 346,649 |
| Community Development Projects | 234,608 | 0 | 234,608 |
| Mini Park Trust Expendable | 25,480 | 0 | 25,480 |
| Human Services Programs | 405,156 | 0 | 405,156 |
| Other Purposes | 314,157 | 0 | 314,157 |
| Unrestricted | (4,275,574) | 8,149,018 | 3,873,444 |
| Total Net Position | $17,394,779 | $32,195,507 | $49,590,286 |

See accompanying notes to the basic financial statements.

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General Government | $1,282,016 | $1,173,872 | $71,425 | $0 |
| Public Safety | 3,900,865 | 187,305 | 11,553 | 12,011 |
| Leisure Time Activities | 76,918 | 18,794 | 7,214 | 0 |
| Community Development | 167,125 | 44,169 | 17,418 | 0 |
| Transportation and Street Repair | 1,358,796 | 0 | 547,595 | 1,142,021 |
| Public Health and Welfare | 448,774 | 36,520 | 207,545 | 0 |
| Other | 25,223 | 0 | 0 | 0 |
| Interest and Other Charges | 235,037 | 0 | 0 | 0 |
| Total Governmental Activities | 7,494,754 | 1,460,660 | 862,750 | 1,154,032 |
| Business-Type Activities: | | | | |
| Sewer | 1,796,958 | 1,890,307 | 0 | 13,562 |
| Water | 2,390,500 | 2,256,601 | 0 | 102,380 |
| Electric | 11,982,905 | 11,572,131 | 0 | 0 |
| Total Business-Type Activities | 16,170,363 | 15,719,039 | 0 | 115,942 |
| Totals | $23,665,117 | $17,179,699 | $862,750 | $1,269,974 |

General Revenues:
Income Taxes
Property Taxes Levied for:
General Purposes
Special Revenue Purposes
Grants and Entitlements, Not Restricted
Unrestricted Contributions
Investment Earnings
Other Taxes: Excise Taxes
Other Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying notes to the basic financial statements.

| Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|
| Governmental Activities | Business-Type Activities | Total |
| | | |
| ($36,719) | $0 | ($36,719) |
| (3,689,996) | 0 | (3,689,996) |
| (50,910) | 0 | (50,910) |
| (105,538) | 0 | (105,538) |
| 330,820 | 0 | 330,820 |
| (204,709) | 0 | (204,709) |
| (25,223) | 0 | (25,223) |
| (235,037) | 0 | (235,037) |
| | | |
| (4,017,312) | 0 | (4,017,312) |
| | | |
| 0 | 106,911 | 106,911 |
| 0 | (31,519) | (31,519) |
| 0 | (410,774) | (410,774) |
| | | |
| 0 | (335,382) | (335,382) |
| | | |
| (4,017,312) | (335,382) | (4,352,694) |
| | | |
| 3,672,549 | 0 | 3,672,549 |
| | | |
| 245,187 | 0 | 245,187 |
| 406,101 | 0 | 406,101 |
| 304,819 | 0 | 304,819 |
| 1,225 | 0 | 1,225 |
| 21,871 | 17,524 | 39,395 |
| 328,515 | 0 | 328,515 |
| 320,510 | 142,491 | 463,001 |
| | | |
| 5,300,777 | 160,015 | 5,460,792 |
| | | |
| 1,283,465 | (175,367) | 1,108,098 |
| | | |
| 16,111,314 | 32,370,874 | 48,482,188 |
| | | |
| $17,394,779 | $32,195,507 | $49,590,286 |

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

| | General | Streets, Alleys & Basin Rehab | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | $725,145 | $346,230 | $2,600,994 | $3,672,369 |
| Receivables (Net): | | | | |
| Taxes | 919,639 | 132,667 | 673,815 | 1,726,121 |
| Accounts | 11,495 | 0 | 33,720 | 45,215 |
| Intergovernmental | 197,972 | 0 | 257,292 | 455,264 |
| Special Assessments | 0 | 0 | 10,827 | 10,827 |
| Inventory | 30,745 | 0 | 101,732 | 132,477 |
| Prepaid Items | 29,353 | 0 | 16,597 | 45,950 |
| Total Assets | 1,914,349 | 478,897 | 3,694,977 | 6,088,223 |
| Liabilities: | | | | |
| Accounts Payable | 40,418 | 0 | 4,302 | 44,720 |
| Accrued Wages and Benefits | 134,067 | 0 | 20,401 | 154,468 |
| Compensated Absences | 0 | 0 | 3,763 | 3,763 |
| Total Liabilities | 174,485 | 0 | 28,466 | 202,951 |
| Deferred Inflows of Resources: | | | | |
| Property Taxes | 200,280 | 0 | 410,684 | 610,964 |
| Income Taxes | 423,365 | 83,875 | 157,905 | 665,145 |
| Grants and Other Taxes | 75,371 | 0 | 182,281 | 257,652 |
| Special Assessments | 0 | 0 | 10,827 | 10,827 |
| Total Deferred Inflows of Resources | 699,016 | 83,875 | 761,697 | 1,544,588 |
| Fund Balances: | | | | |
| Nonspendable | 62,954 | 0 | 138,329 | 201,283 |
| Restricted | 0 | 395,022 | 2,753,029 | 3,148,051 |
| Assigned | 770,702 | 0 | 13,456 | 784,158 |
| Unassigned | 207,192 | 0 | 0 | 207,192 |
| Total Fund Balances | 1,040,848 | 395,022 | 2,904,814 | 4,340,684 |
| Total Liabilities, Deferred Inflows and Fund Balances | $1,914,349 | $478,897 | $3,694,977 | $6,088,223 |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
December 31, 2017

| | | |
|---|---|---|
| Total Governmental Fund Balances | | $4,340,684 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | | |
| Capital assets used in the operation of Governmental Funds | | 23,706,428 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Income Taxes | 665,145 | |
| Delinquent Property Taxes | 61,028 | |
| Intergovernmental | 257,652 | |
| Other Receivables | 10,827 | |
| | | 994,652 |
| An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | |
| Internal Service Net Position | 229,736 | |
| Allocation to Business-Type Activities | 26,464 | |
| | | 256,200 |
| In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | (18,864) |
| Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (496,434) |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources related to pensions | 1,550,096 | |
| Deferred inflows of resources related to pensions | (391,168) | |
| | | 1,158,928 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Net Pension Liability | (6,817,879) | |
| Bonds and Loans Payable | (5,728,936) | |
| | | (12,546,815) |
| Net Position of Governmental Activities | | $17,394,779 |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2017

| | General | Streets, Alleys & Basin Rehab | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues: | | | | |
| Property and Other Taxes | $574,362 | $0 | $407,439 | $981,801 |
| Income Taxes | 2,461,549 | 431,019 | 811,453 | 3,704,021 |
| Charges for Services | 991,800 | 0 | 110,433 | 1,102,233 |
| Investment Earnings | 21,010 | 0 | 861 | 21,871 |
| Intergovernmental | 303,951 | 1,142,021 | 868,389 | 2,314,361 |
| Special Assessments | 0 | 0 | 22,032 | 22,032 |
| Fines, Licenses & Permits | 208,510 | 0 | 128,175 | 336,685 |
| Other Revenues | 182,332 | 0 | 139,403 | 321,735 |
| Total Revenues | 4,743,514 | 1,573,040 | 2,488,185 | 8,804,739 |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 1,207,495 | 0 | 0 | 1,207,495 |
| Public Safety | 2,942,335 | 0 | 409,262 | 3,351,597 |
| Leisure Time Activities | 0 | 0 | 64,043 | 64,043 |
| Community Development | 26,812 | 0 | 160,309 | 187,121 |
| Transportation and Street Repair | 39,753 | 0 | 520,347 | 560,100 |
| Public Health and Welfare | 0 | 0 | 451,796 | 451,796 |
| Other | 0 | 0 | 25,223 | 25,223 |
| Capital Outlay | 0 | 1,435,091 | 556,553 | 1,991,644 |
| Debt Service: | | | | |
| Principal | 0 | 400,000 | 208,770 | 608,770 |
| Interest and Other Charges | 0 | 6,800 | 235,054 | 241,854 |
| Total Expenditures | 4,216,395 | 1,841,891 | 2,631,357 | 8,689,643 |
| Excess of Revenues Over (Under) Expenditures | 527,119 | (268,851) | (143,172) | 115,096 |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 3,010 | 3,010 |
| Transfers In | 0 | 0 | 380,000 | 380,000 |
| Transfers (Out) | (380,000) | 0 | 0 | (380,000) |
| Total Other Financing Sources (Uses) | (380,000) | 0 | 383,010 | 3,010 |
| Net Change in Fund Balance | 147,119 | (268,851) | 239,838 | 118,106 |
| Fund Balance - Beginning of Year | 893,300 | 663,873 | 2,686,897 | 4,244,070 |
| Change in Reserve for Inventory | 429 | 0 | (21,921) | (21,492) |
| Fund Balance - End of Year | $1,040,848 | $395,022 | $2,904,814 | $4,340,684 |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2017

| | | |
|---|---|---|
| Net Change in Fund Balance - Total Governmental Funds | | $118,106 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period. | | |
| Capital assets used in governmental activities | 1,938,601 | |
| Depreciation Expense | (816,936) | |
| | | 1,121,665 |
| Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. | | (19,540) |
| Governmental funds report City pension contributions as expenditures. However in the Statement of Activites, the cost of pension benefits earned net of employee contributions is reported as pension expense. | | |
| City pension contributions | 506,359 | |
| Cost of benefits earned net of employee contributions | (978,569) | |
| | | (472,210) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Income Taxes | (31,473) | |
| Delinquent Property Taxes | (1,998) | |
| Intergovernmental | 7,240 | |
| Other | (290) | |
| | | (26,521) |
| Repayment of bond and loans principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | 608,770 |
| In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. | | 649 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Compensated Absences | (8,426) | |
| Amortization of Bond Premium | 6,168 | |
| Change in Inventory | (21,492) | |
| | | (23,750) |
| The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. | | |
| Change in Net Position - Internal Service Funds | (65,093) | |
| Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities | 41,389 | |
| | | (23,704) |
| Change in Net Position of Governmental Activities | | $1,283,465 |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2017

| | Business-Type Activities -Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Sewer | Water | Electric | Total Business-Type Activities | Governmental Activities- Internal Service Fund |
| Current Assets: | | | | | |
| Equity in Pooled Cash and Investments | $1,730,666 | $756,711 | $5,963,431 | $8,450,808 | $0 |
| Cash and Cash Equivalents with Fiscal Agent | 0 | 0 | 0 | 0 | 270,098 |
| Receivables (Net): | | | | | |
| Accounts | 121,217 | 259,751 | 1,350,708 | 1,731,676 | 0 |
| Inventory | 88,765 | 257,925 | 602,301 | 948,991 | 0 |
| Prepaid Items | 16,157 | 33,489 | 97,268 | 146,914 | 0 |
| Total Current Assets | 1,956,805 | 1,307,876 | 8,013,708 | 11,278,389 | 270,098 |
| Noncurrent Assets: | | | | | |
| Investment in Joint Venture | 0 | 0 | 189,955 | 189,955 | 0 |
| Capital Assets: | | | | | |
| Nondepreciable Capital Assets | 1,058,325 | 184,645 | 49,370 | 1,292,340 | 0 |
| Depreciable Capital Assets, Net | 6,468,979 | 9,222,643 | 8,600,320 | 24,291,942 | 0 |
| Total Noncurrent Assets | 7,527,304 | 9,407,288 | 8,839,645 | 25,774,237 | 0 |
| Total Assets | 9,484,109 | 10,715,164 | 16,853,353 | 37,052,626 | 270,098 |
| Deferred Outflows of Resources: | | | | | |
| Pension | 287,154 | 381,583 | 493,480 | 1,162,217 | 0 |
| Total Deferred Outflows of Resources | 287,154 | 381,583 | 493,480 | 1,162,217 | 0 |
| Liabilities: | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 10,287 | 15,294 | 856,960 | 882,541 | 0 |
| Accrued Wages and Benefits | 23,747 | 30,410 | 33,072 | 87,229 | 0 |
| Compensated Absences | 12,718 | 19,380 | 55,313 | 87,411 | 0 |
| Accrued Interest Payable | 0 | 13,117 | 0 | 13,117 | 0 |
| Claims Payable | 0 | 0 | 0 | 0 | 40,362 |
| Long-Term Liabilities Due Within One Year | 102,201 | 281,622 | 0 | 383,823 | 0 |
| Total Current Liabilities | 148,953 | 359,823 | 945,345 | 1,454,121 | 40,362 |
| Long-Term Liabilities: | | | | | |
| Compensated Absences | 34,343 | 61,200 | 171,000 | 266,543 | 0 |
| Bonds, Notes & Loans Payable | 316,953 | 837,017 | 0 | 1,153,970 | 0 |
| Net Pension Liability | 751,758 | 998,971 | 1,291,913 | 3,042,642 | 0 |
| Total Noncurrent Liabilities | 1,103,054 | 1,897,188 | 1,462,913 | 4,463,155 | 0 |
| Total Liabilities | 1,252,007 | 2,257,011 | 2,408,258 | 5,917,276 | 40,362 |
| Deferred Inflows of Resources: | | | | | |
| Pension | 18,678 | 24,820 | 32,098 | 75,596 | 0 |
| Total Deferred Inflows of Resources | 18,678 | 24,820 | 32,098 | 75,596 | 0 |
| Net Position: | | | | | |
| Net Investment in Capital Assets | 7,108,150 | 8,288,649 | 8,649,690 | 24,046,489 | 0 |
| Unrestricted | 1,392,428 | 526,267 | 6,256,787 | 8,175,482 | 229,736 |
| Total Net Position | $8,500,578 | $8,814,916 | $14,906,477 | 32,221,971 | $229,736 |
| Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities | | | | (26,464) | |
| Net Position of Business-Type Activities | | | | $32,195,507 | |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

| | Business-Type Activities -Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Sewer | Water | Electric | Total Business-Type Activities | Governmental Activities-Internal Service Fund |
| Operating Revenues: | | | | | |
| Charges for Services | $1,890,307 | $2,256,601 | $11,572,131 | $15,719,039 | $1,414,144 |
| Other Revenues | 10,498 | 23,097 | 108,896 | 142,491 | 0 |
| Total Operating Revenues | 1,900,805 | 2,279,698 | 11,681,027 | 15,861,530 | 1,414,144 |
| Operating Expenses: | | | | | |
| Personal Services | 785,529 | 1,033,848 | 1,391,992 | 3,211,369 | 0 |
| Contractual Services | 219,301 | 332,043 | 842,895 | 1,394,239 | 0 |
| Materials and Supplies | 150,241 | 462,270 | 8,917,119 | 9,529,630 | 0 |
| Depreciation | 363,578 | 358,071 | 631,762 | 1,353,411 | 0 |
| Utilities | 230,209 | 171,122 | 21,373 | 422,704 | 0 |
| Claims | 0 | 0 | 0 | 0 | 1,482,730 |
| Other Expense | 1,751 | 7,139 | 115,794 | 124,684 | 0 |
| Total Operating Expenses | 1,750,609 | 2,364,493 | 11,920,935 | 16,036,037 | 1,482,730 |
| Operating Income (Loss) | 150,196 | (84,795) | (239,908) | (174,507) | (68,586) |
| Non-Operating Revenues (Expenses): | | | | | |
| Investment Earnings | 0 | 0 | 17,524 | 17,524 | 3,493 |
| Interest (Expense) | (4,959) | (26,007) | (87) | (31,053) | 0 |
| (Loss) in Investment in Joint Venture | 0 | 0 | (61,883) | (61,883) | 0 |
| Total Non-Operating Revenues (Expenses) | (4,959) | (26,007) | (44,446) | (75,412) | 3,493 |
| Income (Loss) Before Contributions | 145,237 | (110,802) | (284,354) | (249,919) | (65,093) |
| Capital Grants and Contributions | 13,562 | 102,380 | 0 | 115,942 | 0 |
| Change in Net Position | 158,799 | (8,422) | (284,354) | (133,977) | (65,093) |
| Net Position - Beginning of Year | 8,341,779 | 8,823,338 | 15,190,831 | 32,355,948 | 294,829 |
| Net Position - End of Year | $8,500,578 | $8,814,916 | $14,906,477 | 32,221,971 | $229,736 |
| Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities | | | | (41,390) | |
| Change in Net Position - Total Business-Type Activities | | | | ($175,367) | |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

| | Business-Type Activities -Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Sewer | Water | Electric | Total Business-Type Activities | Governmental Activities- Internal Service Fund |
| Cash Flows from Operating Activities: | | | | | |
| Cash Received from Customers | $1,898,966 | $2,378,137 | $11,660,532 | $15,937,635 | $1,414,144 |
| Cash Payments to Employees | (696,405) | (909,035) | (1,209,649) | (2,815,089) | 0 |
| Cash Payments to Suppliers | (607,509) | (1,168,374) | (10,279,506) | (12,055,389) | 0 |
| Cash Payments for Claims | 0 | 0 | 0 | 0 | (1,486,977) |
| Other Cash Payments | (1,751) | (7,139) | (115,795) | (124,685) | 0 |
| Net Cash Provided (Used) by Operating Activities | 593,301 | 293,589 | 55,582 | 942,472 | (72,833) |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Payments for Capital Acquisitions | (129,083) | (165,853) | (149,436) | (444,372) | 0 |
| Debt Principal Payments | (102,201) | (274,526) | 0 | (376,727) | 0 |
| Debt Interest Payments | (4,959) | (31,530) | (87) | (36,576) | 0 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (236,243) | (471,909) | (149,523) | (857,675) | 0 |
| Cash Flows from Investing Activities: | | | | | |
| Earnings on Investments | 0 | 0 | 17,524 | 17,524 | 3,493 |
| Net Cash Provided (Used) by Cash Flows from Investing Activities | 0 | 0 | 17,524 | 17,524 | 3,493 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 357,058 | (178,320) | (76,417) | 102,321 | (69,340) |
| Cash and Cash Equivalents - Beginning of Year | 1,373,608 | 935,031 | 6,039,848 | 8,348,487 | 339,438 |
| Cash and Cash Equivalents - End of Year | 1,730,666 | 756,711 | 5,963,431 | 8,450,808 | 270,098 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | | |
| Operating Income (Loss) | 150,196 | (84,795) | (239,908) | (174,507) | (68,586) |
| Adjustments: | | | | | |
| Depreciation | 363,578 | 358,071 | 631,762 | 1,353,411 | 0 |
| Changes in Assets & Liabilities: | | | | | |
| (Increase) Decrease in Receivables | (1,839) | (3,941) | (20,496) | (26,276) | 0 |
| (Increase) Decrease in Inventory | 13,241 | (51,208) | 42,692 | 4,725 | 0 |
| (Increase) Decrease in Prepaid Items | (1,933) | (4,864) | (4,279) | (11,076) | 0 |
| (Increase) Decrease in Deferred Outflows of Resources | (66,002) | (83,629) | (73,344) | (222,975) | 0 |
| Increase (Decrease) in Payables | (19,066) | (44,487) | (536,532) | (600,085) | (4,247) |
| Increase (Decrease) in Accrued Liabilities | (4,332) | 7,809 | 92,388 | 95,865 | 0 |
| Increase (Decrease) in Deferred Inflows of Resources | (15,276) | (20,925) | (32,406) | (68,607) | 0 |
| Increase (Decrease) in Net Pension Liability | 174,734 | 221,558 | 195,705 | 591,997 | 0 |
| Net Cash Provided (Used) by Operating Activities | $593,301 | $293,589 | $55,582 | $942,472 | ($72,833) |
| Schedule of Noncash Capital Activities: | | | | | |
| During the fiscal year, these amounts were received representing noncash contributions of: | | | | | |
| Capital Assets | $13,562 | $102,380 | $0 | $115,942 | $0 |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

| | Private Purpose Trust | Agency |
|---|---|---|
| Assets: | | |
| Equity in Pooled Cash and Investments | $174,839 | $247,845 |
| Total Assets | 174,839 | 247,845 |
| Liabilities: | | |
| Intergovernmental Payable | 0 | 247,845 |
| Total Liabilities | 0 | $247,845 |
| Net Position: | | |
| Held in Trust | 174,839 | |
| Total Net Position | $174,839 | |

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended December 31, 2017

| | Private Purpose Trust |
|---|---|
| Additions: | |
| Investment Earnings | 7,067 |
| Other | 8,854 |
| Total Additions | 15,921 |
| Deductions: | |
| General Government | 2,610 |
| Total Deductions | 2,610 |
| Change in Net Position | 13,311 |
| Net Position - Beginning of Year, Restated | 161,528 |
| Net Position - End of Year | $174,839 |

See accompanying notes to the basic financial statements.

## Note 1 - Description of the City

The City of Shelby (the "City") is a home rule municipal corporation incorporated as a City in 1921 under the laws of the State of Ohio. The City operates under its own charter and is governed by a mayor-council form of government, which was adopted on August 9, 1921.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes. As chief conservator of the peace, the Mayor oversees the enforcement of all laws and ordinances. The Mayor also executes all contracts, conveyances and evidences of indebtedness of the City.

Legislative authority is vested in a five member Council with four members elected from wards and the vice-president of Council elected at large. Members of Council are elected to two year terms. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money and authorizes bids for materials and services and other municipal purposes.

The Finance Director, elected by the voters for a four-year term is the chief accountant of the municipal government and is responsible for all accounting functions and responsibilities per the charter of the City. The Finance Director is custodian of all public funds collected by the City and invests and disburses those funds. All contracts and agreements or obligations receiving or disbursing City moneys are all certified by the Finance Director before being entered into.

The Law Director, a practicing attorney-at-law is elected by the voters for a four-year term and is the chief legal representative and adviser for the City. The Law Director prepares all contracts, bonds, and other legal instruments as well as endorses each with his approval. The Law Director also acts as the prosecuting attorney for the City's municipal court system.

## Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

### Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of two insurance purchasing pools, which are described in Note 11.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation, sewer, water and electric.

The following organization is described due to its relationship with the City:

**Joint Venture**

The City of Shelby is a Non-Financing Participant and an Owner Participant with an ownership percentage of 1.89% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued $50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of $45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the $31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2016 (latest information available), the outstanding debt was $4,142,633. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was $189,955 at December 31, 2017. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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The thirty-six participating subdivisions and their respective ownership shares at December 31, 2017 are:

| Municipality | Percent Ownership | Kw Entitlement | Municipality | Percent Ownership | Kw Entitlement |
|---|---|---|---|---|---|
| Hamilton | 23.87% | 32,000 | Grafton | 0.79% | 1,056 |
| Bowling Green | 14.32% | 19,198 | Brewster | 0.75% | 1,000 |
| Niles | 11.49% | 15,400 | Monroeville | 0.57% | 764 |
| Cuyahoga Falls | 7.46% | 10,000 | Milan | 0.55% | 737 |
| Wadsworth | 5.81% | 7,784 | Oak Harbor | 0.55% | 737 |
| Painesville | 5.22% | 7,000 | Elmore | 0.27% | 364 |
| Dover | 5.22% | 7,000 | Jackson Center | 0.22% | 300 |
| Galion | 4.29% | 5,753 | Napoleon | 0.20% | 264 |
| Amherst | 3.73% | 5,000 | Lodi | 0.16% | 218 |
| St. Mary's | 2.98% | 4,000 | Genoa | 0.15% | 199 |
| Montpelier | 2.98% | 4,000 | Pemberville | 0.15% | 197 |
| Shelby | 1.89% | 2,536 | Lucas | 0.12% | 161 |
| Versailles | 1.24% | 1,660 | South Vienna | 0.09% | 123 |
| Edgerton | 1.09% | 1,460 | Bradner | 0.09% | 119 |
| Yellow Springs | 1.05% | 1,408 | Woodville | 0.06% | 81 |
| Oberlin | 0.91% | 1,217 | Haskins | 0.05% | 73 |
| Pioneer | 0.86% | 1,158 | Arcanum | 0.03% | 44 |
| Seville | 0.79% | 1,066 | Custar | 0.00% | 4 |
| | 95.20% | 127,640 | | 4.80% | 6,441 |
| | | | Grand Total | 100.00% | 134,081 |

**Basis of Presentation - Fund Accounting**

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by fund type.

**Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, and deferred outflows of resources and liabilities, and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

> *General Fund* - The general fund accounts for all financial resources except those required to be accounted for in another fund.
>
> *Street, Alleys, and Basin Rehab* – This capital projects fund is used for construction on streets, alleys, and basin rehab throughout the city.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** - Proprietary fund reporting focuses on changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

> *Enterprise Funds* -Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

*Sewer Fund* -This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

*Water Fund* -This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

*Electric Fund* - This fund accounts for the operations providing electric services to the residents and commercial users located within the City.

*Internal Service Fund* - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

***Fiduciary Funds* -** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are private purpose trust and agency funds. The City's private purpose trust fund accounts for monies held in trust for the maintenance and upkeep of the Sutter Mausoleum and to provide an assembly hall for meetings at the Sutter Roush Room. The City's agency funds account for customer deposits, utility sharing and municipal court. The customer deposit fund is deposits made by utility customers which are refunded if customers have fulfilled their obligations when they cancel their account. The utility sharing fund accounts for donations made by utility customers which are intended to help pay the utility bills of those who are unable to do so. The municipal court fund represents cash that is collected by the City's municipal court and disbursed to government agencies, including the City.

**Measurement Focus and Basis of Accounting**

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position.

***Fund Financial Statements*** -All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Nonexchange Transactions*** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), interest, grants, and special assessments.

***Deferred Outflows/Inflows of Resources -*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources including pension on the government-wide statement of net position. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the

City, deferred inflows of resources include income and property taxes, grants and other taxes, special assessments, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes and special assessments have been recorded as deferred inflows on the governmental fund financial statements. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide state of net position. (See Note 12)

***Expenses/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the department level, and then personnel and other within each fund. Budgetary modifications may only be made by resolution of the City Council at the legal level of budgetary control.

***Tax Budget*** - During the first Council meeting in July, the Finance Director presents the following year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary schedule reflect the amounts in the original and final amended official certificate of estimated resources issued during 2017.

***Appropriations*** - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the item level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations at the legal level of budgetary control may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

***Lapsing of Appropriations*** - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are included in the following year appropriations.

**Equity in Pooled Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2017, interest revenue credited to the general fund amounted to $21,010 and $861 to other governmental funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. The City maintains segregated depository accounts for municipal court deposits.

The City is part of the Ohio Municipal League (OML) Joint Self-Insurance Pool. The money held by the fiscal agent is presented as "cash and cash equivalents with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OML is described in Note 11.

For purposes of the statement of cash flows and for presentation on the statement of net position/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

**Inventories of Materials and Supplies**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the governmental fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance, which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventory consists of expendable supplies held for consumption.

**Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of $1,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, electric distribution systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Governmental Activities Estimated Lives | Business-Type Activities Estimated Lives |
|---|---|---|
| Buildings and Improvements | 3 - 50 years | 3 - 50 years |
| Equipment | 2 - 30 years | 2 - 30 years |
| Infrastructure | 5 - 65 years | 5 - 65 years |

**Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination (severance) payments and by those employees for whom it is probable they will become eligible to receive termination (severance) benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental funds; however, they are reported in the government-wide financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**Prepayments**

Payments made to vendors for services that will benefit beyond December 31, 2017, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, notes, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

**Interfund Activity**

Interfund balances are eliminated on the statement of net position, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "internal balances".

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. As of December 31, 2017, the City had no restricted assets.

**Fund Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

> Nonspendable – resources that are not in spendable form (prepaids) or have legal or contractual requirements to maintain the balance intact.
>
> Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.
>
> Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the City Council.
>
> Assigned – resources that are intended to be used for specific purposes as approved through the City's formal purchasing procedure by the Finance Director.
>
> Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned.

The City first considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

**Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**Contributed Capital**

Contributions of capital arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. Capital contributions are reported as a program revenue in the statement of activities.

**Net Position**

Net position represents the difference between assets, and deferred outflows of resources and liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes consist primarily of net position restricted for income tax operations, City administrative operations and trust fund resources. Of the City's $3,692,861 in restricted net position, none was restricted by enabling legislation.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Bond Premium and Discount**

Bond premiums are deferred and accrued over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and electric enterprise funds and charges for services to other departments for the self-insurance internal service fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

## Note 3 - Equity in Pooled Cash and Investments

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash with Fiscal Agent**

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2017 was $270,098. This amount is not included in the City's depository balance below.

**Deposits**

At December 31, 2017, $6,666,715 of the City's bank balance of $12,486,773 was exposed to custodial risk as discussed below, while $5,820,058 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**Investments**

As of December 31, 2017, the City had no investments.

## Note 4 - Interfund Transactions

Interfund transfers for the year ended December 31, 2017, consisted of the following, as reported on the fund statements:

| Transfers from the general fund to: | |
|---|---|
| Other governmental funds | $380,000 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide statements.

## Note 5 - Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2017 were levied after October 1, 2016 on assessed values as of January 1, 2016, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

Public utility real property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The assessed values of real and public utility personal property upon which current year property tax receipts were based are as follows:

| | |
|---|---|
| Real Property | $121,347,140 |
| Public Utility | 1,729,210 |
| Total Valuation | $123,076,350 |

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

The City receives property taxes from Richland County. The County Treasurer collects property taxes on behalf of all taxing districts in the counties. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2017, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2017 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is a deferred inflow.

## Note 6 - Local Income Tax

The City levies a municipal income tax of 1.50% on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 0.67% for general use financing of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations are required to pay their estimated tax quarterly and file a declaration annually. Income taxes collected are used for general fund purposes (1%), police and court facility construction (.3%), and street and sidewalk improvements and repairs (.2%) as approved by the voters.

## Note 7 - Receivables

Receivables at year end, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts receivable.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

## Note 8 – Capital Assets

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Governmental Activities | | | | |
| *Capital Assets, not being depreciated:* | | | | |
| Land | $405,871 | $0 | $19,540 | $386,331 |
| Construction in Progress | 1,466,742 | 1,709,222 | 0 | 3,175,964 |
| *Capital Assets, being depreciated:* | | | | |
| Buildings and Improvements | 10,743,487 | 0 | 0 | 10,743,487 |
| Equipment | 4,927,619 | 229,379 | 4,000 | 5,152,998 |
| Infrastructure | 20,741,108 | 0 | 0 | 20,741,108 |
| Totals at Historical Cost | $38,284,827 | $1,938,601 | $23,540 | $40,199,888 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | $2,486,584 | $129,541 | $0 | $2,616,125 |
| Equipment | 3,771,072 | 196,458 | 4,000 | 3,963,530 |
| Infrastructure | 9,422,868 | 490,937 | 0 | 9,913,805 |
| Total Accumulated Depreciation | $15,680,524 | $816,936 | $4,000 | $16,493,460 |
| Governmental Activities Capital Assets, Net | $22,604,303 | $1,121,665 | $19,540 | $23,706,428 |

| Business-Type Activities | Beginning | | | Ending |
|---|---|---|---|---|
| *Capital Assets, not being depreciated:* | Balance | Additions | Deletions | Balance |
| Land | $233,440 | $0 | $0 | $233,440 |
| Construction in Progress | 1,237,310 | 23,650 | 202,060 | 1,058,900 |
| *Capital Assets, being depreciated:* | | | | |
| Buildings and Improvements | 14,193,662 | 0 | 0 | 14,193,662 |
| Equipment | 29,620,744 | 434,285 | 0 | 30,055,029 |
| Infrastructure | 24,944,924 | 304,440 | 0 | 25,249,364 |
| Totals at Historical Cost | 70,230,080 | 762,375 | 202,060 | 70,790,395 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 7,706,038 | 306,211 | 0 | 8,012,249 |
| Equipment | 27,399,116 | 745,448 | 0 | 28,144,564 |
| Infrastructure | 8,747,547 | 301,753 | 0 | 9,049,300 |
| Total Accumulated Depreciation | 43,852,701 | 1,353,412 | 0 | 45,206,113 |
| Business-Type Activities Capital Assets, Net | $26,377,379 | ($591,037) | $202,060 | $25,584,282 |

Depreciation expense was charged to functions/programs of the governmental activities as follows:

| | |
|---|---|
| General Government | $33,869 |
| Public Safety | 114,731 |
| Leisure Time Activities | 10,100 |
| Community Development | 72,352 |
| Public Health and Welfare | 2,194 |
| Transportation and Street Repair | 583,690 |
| Total Depreciation Expense | $816,936 |

## Note 9 – Compensated Absences

Employees earn vacation and sick leave at different rates which are affected by length of service. Vacation can be carried over at different rates depending on the department. Service and office employees may carry over 80 hours while the police may carry over 40 hours for use in the following year. Sick leave accrual is continuous, without limit.

Upon retirement, an employee can be paid for his/her accumulated hours of sick leave up to 720 hours, except for eligible fire department employees, who can be paid for his/her accumulated hours up to 2,160 hours. Upon retirement, termination, or death of the employee, vacation is paid for the total time accumulated for the employee.

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## Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2017:

| | Interest Rate | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | |
| General Obligation Bonds | | | | | | |
| Fire Truck - Series 2008 | 4.75% | $50,000 | $0 | ($25,000) | $25,000 | $25,000 |
| Municipal Justice Center Improvements | 4.10% | 5,725,000 | 0 | (155,000) | 5,570,000 | 170,000 |
| Premium on General Obligations Bonds | | 119,455 | 0 | (6,168) | 113,287 | 0 |
| Total General Obligation Bonds | | 5,894,455 | 0 | (186,168) | 5,708,287 | 195,000 |
| Special Assessment Bonds | | | | | | |
| Street Improvement - Fox Run 7 | 4.25% | 41,296 | 0 | (20,647) | 20,649 | 20,649 |
| Street Improvement - Series 2016 | 1.70% | 400,000 | 0 | (400,000) | 0 | 0 |
| Total Special Assessment Bonds | | 441,296 | 0 | (420,647) | 20,649 | 20,649 |
| OPWC Loan Payable: | | | | | | |
| Wareham Road | 0.00% | 8,123 | 0 | (8,123) | 0 | 0 |
| Total Bonds and Loans Payable | | 6,343,874 | 0 | (614,938) | 5,728,936 | 215,649 |
| Net Pension Liability: | | | | | | |
| OPERS | | 1,262,340 | 529,843 | 0 | 1,792,183 | 0 |
| OP&F | | 5,330,378 | 0 | (304,682) | 5,025,696 | 0 |
| Total Net Pension Liablilty | | 6,592,718 | 529,843 | (304,682) | 6,817,879 | 0 |
| Compensated Absences | | 488,008 | 75,683 | (63,494) | 500,197 | 65,813 |
| Total Governmental Activities | | $13,424,600 | $605,526 | ($983,114) | $13,047,012 | $281,462 |

| | Interest Rate | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| **Business-Type Activities** | | | | | | |
| OWDA and OPWC Loans Payable: | | | | | | |
| WTP Upgrade | 2.75% | $1,210,210 | $0 | ($256,230) | $953,980 | $263,326 |
| WTP Improvements | 1.00% | 521,355 | 0 | (102,201) | 419,154 | 102,201 |
| OPWC | 0.00% | 182,955 | 0 | (18,296) | 164,659 | 18,296 |
| Total Loans Payable | | 1,914,520 | 0 | (376,727) | 1,537,793 | 383,823 |
| Net Pension Liability: | | | | | | |
| OPERS | | 2,450,645 | 591,997 | 0 | 3,042,642 | 0 |
| Total Net Pension Liability | | 2,450,645 | 591,997 | 0 | 3,042,642 | 0 |
| AMP Ohio Payable | | 644,363 | 0 | (644,363) | 0 | 0 |
| Compensated Absences | | 254,695 | 165,144 | (65,885) | 353,954 | 87,411 |
| Total Business-Type Activities | | $5,264,223 | $757,141 | ($1,086,975) | $4,934,389 | $471,234 |

***Special assessment bonds*** - Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. Payments on the bonds are made from the Special Bond Retirement debt service fund and the Streets, Alleys & Basins capital projects fund.

***General obligation bonds payable*** - General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. In September, 2011, the City issued $6,385,000 in General Obligation Bonds to finance improvements to the Municipal Justice Center. The bonds were issued at an interest rate of 4.1% and will mature on December 1, 2036. These bonds are being paid from the Police and Court Construction capital projects fund.

In 2009, the City issued $205,000 in Fire Truck Bonds for the purchase of a new fire truck. The bonds were issued at an interest rate of 4.75% and will mature on December 1, 2018. The bonds are being paid from the fire equipment capital projects fund.

***OPWC loans payable*** - The City has entered into a debt financing arrangement through the Ohio Public Works Commission (OPWC) to fund construction projects. This loan was retired in 2017 through the general bond retirement fund (a nonmajor governmental fund). The OPWC loan is interest free.

***OWDA loans payable*** - The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable from water and sewer fund operating revenues. The loan agreements function similar to a line-of-credit agreement. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

AMP Ohio Payable – See Note 14 for further information.

***Compensated absences*** - Compensated absences will be paid from the fund from which the employee is paid. The City will pay compensated absences from the general fund, sewer fund, water fund, electric fund and the following nonmajor governmental funds: street fund and health fund.

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2017, are as follows:

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| | Governmental Activities | | | | Business-Type Activities | |
|---|---|---|---|---|---|---|
| Year Ending December 31 | General Obligation Bonds Principal | General Obligation Bonds Interest | Special Assessment Bonds Principal | Special Assessment Bonds Interest | OWDA Loans Principal | OWDA Loans Interest |
| 2018 | $195,000 | $226,050 | $20,649 | $760 | $383,823 | $24,436 |
| 2019 | 180,000 | 218,000 | 0 | 0 | 391,113 | 17,146 |
| 2020 | 190,000 | 210,800 | 0 | 0 | 398,606 | 9,653 |
| 2021 | 200,000 | 203,200 | 0 | 0 | 262,426 | 1,951 |
| 2022 | 220,000 | 195,200 | 0 | 0 | 28,646 | 0 |
| 2023-2027 | 1,315,000 | 832,400 | 0 | 0 | 73,179 | 0 |
| 2028-2032 | 1,660,000 | 542,800 | 0 | 0 | 0 | 0 |
| 2033-2036 | 1,635,000 | 171,175 | 0 | 0 | 0 | 0 |
| Total | $5,595,000 | $2,599,625 | $20,649 | $760 | $1,537,793 | $53,186 |

## Note 11 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2017, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits.

A summary of the City's insurance coverage at December 31, 2017, follows:

| Company | Type of Coverage | Deductible | |
|---|---|---|---|
| EMC Insurance Co. | Property | $1,000 | |
| | General Liability | 1,000 | |
| | Inland Marine | 1,000 | |
| | Errors & Omission | 1,000 | |
| | Law Enforcement | 5,000 | |
| | Excess Liability | 1,000 | |
| Shelby Mutual Insurance Company | Public Employee | | |
| | Dishonest bond | 1,000 | |
| | Finance | 5,000 | |
| EMC Insurance Co. | Automobile | 1,000 | Comprehensive |
| | | 1,000 | Collision |
| EMC Insurance Co. | Steam Boiler | 5,000 | Water Plant |
| | | 1,000 | All Other |

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Mutual Health Services, located in Akron, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is $691.21 for single coverage and $1,522.19 for family coverage.

The claims liability of $40,362 reported in the internal service fund at December 31, 2017, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30 "Risk Financing Omnibus", which requires that a liability for claims be reported at the estimated ultimate cost of settling the claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amounts for the years ended December 31, 2017 and 2016 were as follows:

| Year | Beginning of Year | Claims | Payments | End of Year |
|---|---|---|---|---|
| 2017 | $44,609 | $1,482,730 | ($1,486,977) | $40,362 |
| 2016 | 160,752 | 1,451,621 | (1,567,764) | 44,609 |

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from 2016 to 2017.

## Note 12 - Defined Benefit Pension Plans

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued wages and benefits* on both the accrual and modified accrual bases of accounting.

***Ohio Public Employees Retirement System (OPERS)***

*Plan Description* – The City's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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| **Group A**<br>Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B**<br>20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C**<br>Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |
| **Public Safety** | **Public Safety** | **Public Safety** |
| **Age and Service Requirements:**<br>Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | **Age and Service Requirements:**<br>Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | **Age and Service Requirements:**<br>Age 52 with 25 years of service credit or Age 56 with 15 years of service credit |
| **Law Enforcement** | **Law Enforcement** | **Law Enforcement** |
| **Age and Service Requirements:**<br>Age 52 with 15 years of service credit | **Age and Service Requirements:**<br>Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | **Age and Service Requirements:**<br>Age 48 with 25 years of service credit or Age 56 with 15 years of service credit |
| **Public Safety and Law Enforcement** | **Public Safety and Law Enforcement** | **Public Safety and Law Enforcement** |
| **Formula:**<br>2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | **Formula:**<br>2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | **Formula:**<br>2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

*Funding Policy* - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

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| | State and Local | Public Safety | Law Enforcement |
|---|---|---|---|
| 2017 Statutory Maximum Contribution Rates | | | |
| Employer | 14.0 % | 18.1 % | 18.1 % |
| Employee | 10.0 % | * | ** |
| | | | |
| 2017 Actual Contribution Rates | | | |
| Employer: | | | |
| Pension | 13.0 % | 17.1 % | 17.1 % |
| Post-employment Health Care Benefits | 1.0 | 1.0 | 1.0 |
| Total Employer | 14.0 % | 18.1 % | 18.1 % |
| Employee | 10.0 % | 12.0 % | 13.0 % |

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.
** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City is contractually required contribution was $353,356 for 2017. Of this amount $30,775 is reported as accrued wages and benefits.

***Ohio Police & Fire Pension Fund (OPF)***

*Plan Description* - City full-time safety officers participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

*Funding Policy* - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | Safety Officers | Firefighters |
|---|---|---|
| 2017 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| | | |
| 2017 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |

The City's contractually required contribution to OPF was $375,376 for 2017. Of this amount $29,473 is reported as accrued wages and benefits.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City proportion of the net pension liability was based on the City share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | OPERS | OPF | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $4,834,825 | $5,025,696 | $9,860,521 |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | 0.02129100% | 0.07934600% | |
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.02143600% | 0.08285900% | |
| Change in Proportionate Share | -0.0001450% | -0.0035130% | |
| Pension Expense | $953,098 | $548,261 | $1,501,359 |

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS | OPF | Total |
|---|---|---|---|
| Deferred Outflows of Resources: | | | |
| Differences between expected and actual experience | $6,553 | $1,422 | $7,975 |
| Changes in assumptions | 766,862 | 0 | 766,862 |
| Net difference between projected and actual earnings on pension plan investments | 720,017 | 488,727 | 1,208,744 |
| Contributions subsequent to the measurement date | 353,356 | 375,376 | 728,732 |
| Total Deferred Outflows of Resources | $1,846,788 | $865,525 | $2,712,313 |
| | | | |
| Deferred Inflows of Resources: | | | |
| Differences between expected and actual experience | $28,774 | $11,571 | $40,345 |
| Changes in employer proportionate share of net pension liability | 91,349 | 335,070 | 426,419 |
| Total Deferred Inflows of Resources | $120,123 | $346,641 | $466,764 |

$728,732 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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| Year Ending December 31: | OPERS | OPF | Total |
|---|---|---|---|
| 2018 | $530,534 | $112,254 | $642,788 |
| 2019 | 608,437 | 112,254 | 720,691 |
| 2020 | 255,445 | 67,965 | 323,410 |
| 2021 | (21,106) | (106,517) | (127,623) |
| 2022 | 0 | (39,365) | (39,365) |
| Thereafter | 0 | (3,084) | (3,084) |
| Total | $1,373,310 | $143,507 | $1,516,817 |

***Actuarial Assumptions – OPERS***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

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Key Methods and Assumptions Used in Valuation of Total Pension Liability

| Actuarial Information | Traditional Pension Plan |
|---|---|
| Valuation Date | December 31, 2016 |
| Experience Study | 5 year period ending December 31, 2015 |
| Actuarial Cost Method | Individual Entry Age |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.50% |
| Wage Inflation | 3.25% |
| Projected Salary Increases | 3.25% - 10.75% (includes wage inflation at 3.25%) |
| Cost-of-Living Adjustments: | |
| Pre 1/7/2013 Retirees | 3.00% Simple, |
| Post 1/7/2013 Retirees | 3.00% Simple, |
| Through 2018, then | 2.15% Simple. |

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 23.00 % | 2.75 % |
| Domestic Equities | 20.70 | 6.34 |
| Real Estate | 10.00 | 4.75 |
| Private Equity | 10.00 | 8.97 |
| International Equities | 18.30 | 7.95 |
| Other Investments | 18.00 | 4.92 |
| Total | 100.00 % | 5.66 % |

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the City Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* - The following table presents the net pension liability or asset calculated using the discount rate of 7.5%, and the expected net pension liability or asset if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| City's proportionate share of the net pension liability: | | | |
| OPERS | $7,386,274 | $4,834,825 | $2,708,641 |

*Changes in Benefit Terms and Assumptions* - There were no recent significant changes of benefit terms, investment policies, the size or composition of the population covered by the benefit terms impacting the actuarial valuation study for the year ended December 31, 2016.

In 2016, a five-year experience study was completed on the period January 1, 2011 through December 31, 2015. The Board adopted changes to both the demographic and economic assumptions as a result of the study. The most notable change in demographic assumptions is an increased life expectancy of the members and the most notable change in economic assumptions is the reduction in the actuarially assumed rate of return from 8.00% down to 7.50% for the defined benefit investments. The new assumptions are included in the 2016 actuarial valuation.

In 2016, OPERS, in conjunction with the Board's investment consultants, also completed an asset liability study. Periodically, the System engages in a more comprehensive study that examines the nature of the pension liabilities the plan will ultimately pay and the characteristics of the asset allocation projections and the associated level of risk. As a result of this study, OPERS modified the asset allocation slightly, but not substantially.

***Actuarial Assumptions – OPF***

OPF's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Key Methods and Assumptions Used in Valuation of Total Pension Liability

| Actuarial Information | OPF Pension Plan |
|---|---|
| Valuation Date | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016 |
| Experience Study | 5 year period ending December 31, 2011 |
| Actuarial Cost Method | Entry Age Normal (Level Percent of Payroll) |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.25% |
| Wage Inflation | 3.25%, plus productivity increase rate of 0.50% |
| Projected Salary Increases | 4.25% - 11.00% |
| Cost-of-Living Adjustments | 3.00% Simple; 2.60% simple for increases based on the lesser of the increase in CPI and 3.00% |

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police (safety officers) and three years for firefighters. For service retirements, set back zero years for police (safety officers) and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study of five years was completed in 2017 covering the period 2012-2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the OPF's Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2016 are summarized below:

| Asset Class | Target Allocation | 10 Year Expected Real Rate of Return** | 30 Year Expected Real Rate of Return** |
|---|---|---|---|
| Cash and Cash Equivalent | 0.00 % | 0.00 % | 0.00 % |
| Domestic Equity | 16.00 | 4.46 | 5.21 |
| Non-US Equity | 16.00 | 4.66 | 5.40 |
| Core Fixed Income* | 20.00 | 1.67 | 2.37 |
| Global Inflation Protected Securities* | 20.00 | 0.49 | 2.33 |
| High Yield | 15.00 | 3.33 | 4.48 |
| Real Estate | 12.00 | 4.71 | 5.65 |
| Private Markets | 8.00 | 7.31 | 7.99 |
| Timber | 5.00 | 6.87 | 6.87 |
| Master Limited Partnerships | 8.00 | 6.92 | 7.36 |
| Total | 120.00 % | | |

Note: Assumptions are geometric
* levered 2x
** Numbers are net of expected inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

*Discount Rate* - The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the preceding table presents the net pension liability calculated using the discount rate of 8.25% as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower, 7.25% or one percentage point higher, 9.25% than the current rate.

| | 1% Decrease (7.25%) | Current Discount Rate (8.25%) | 1% Increase (9.25%) |
|---|---|---|---|
| City's proportionate share of the net pension liability : | | | |
| OPF | $6,693,632 | $5,025,696 | $3,612,098 |

## Note 13 – Post Employment Benefits

### Ohio Public Employees Retirement System

Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.
In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml#CAFR, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

Information from City's Records

The rates stated in Funding Policy, above, are the contractually required contribution rates for OPERS. The City's actual contributions for the current year, which were used to fund postemployment benefits, were $27,170 for 2017, $55,278 for 2016, and $53,106 for 2015. The full amount has been contributed for 2017, 2016 and 2015.

**Ohio Police and Fire Pension Fund**

Plan Description

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164, or by visiting the OP&F website at www.op-f.org.

Funding Policy

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2017 thru December 31, 2017. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's contributions to OP&F for the year ending December 31, 2017 was $9,013, December 31, 2016 was $8,605, and December 31, 2015 was $9,217. The actual contributions for 2017, 2016 and 2015 were 100%.

## Note 14 - Contingencies

### Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2017.

### Contracts

The City has entered into an ongoing contract with both AMP and AEP to purchase power. The city is committed to provide and sell power (electricity) at a marginal profit.

### Litigation

The City is currently not involved in litigation for which the City's legal counsel anticipates a loss.

### Contingent Liability

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's project share was 5,000 kilowatts (kW) of a total 771,281 kW, giving the City a 0.65 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share of the impaired costs at March 31, 2014 was $870,487. The City received a credit of $226,124 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of $644,363. On May 31, 2017, the City repaid the full AMPGS net impaired costs liabililty due.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

The City does have a potential PHFU Liability of $232,580, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the City's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

## Note 15 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | Streets, Alleys & Basin Rehab | Other Governmental Funds | Total |
|---|---|---|---|---|
| Nonspendable: | | | | |
| Inventory | $30,745 | $0 | $101,732 | $132,477 |
| Prepaids | 29,353 | 0 | 16,597 | 45,950 |
| Unclaimed funds | 2,856 | 0 | 0 | 2,856 |
| Muni Park Trust | 0 | 0 | 20,000 | 20,000 |
| Total Nonspendable | 62,954 | 0 | 138,329 | 201,283 |
| Restricted for: | | | | |
| Street | 0 | 0 | 82,892 | 82,892 |
| State Highway | 0 | 0 | 16,455 | 16,455 |
| Street Sales Tax | 0 | 0 | 40,016 | 40,016 |
| Health | 0 | 0 | 366,979 | 366,979 |
| Park | 0 | 0 | 189,136 | 189,136 |
| Rehab Escrow CDBG | 0 | 0 | 9,008 | 9,008 |
| Court Probation | 0 | 0 | 8,619 | 8,619 |
| Law Enforcement Trust | 0 | 0 | 9,717 | 9,717 |
| Court IDAT | 0 | 0 | 52,920 | 52,920 |
| Court Enforcement and Education | 0 | 0 | 16,734 | 16,734 |
| DARE | 0 | 0 | 4,155 | 4,155 |
| Police Computer | 0 | 0 | 2,537 | 2,537 |
| Court IDAM | 0 | 0 | 38,203 | 38,203 |
| Police Pension | 0 | 0 | 70,650 | 70,650 |
| Fire Pension | 0 | 0 | 95,677 | 95,677 |
| Shade Tree Trust | 0 | 0 | 1,995 | 1,995 |
| Fire Damage | 0 | 0 | 3,860 | 3,860 |
| Debt Service | 0 | 0 | 508,615 | 508,615 |
| Capital Projects | 0 | 395,022 | 1,229,381 | 1,624,403 |
| Muni Park Trust | 0 | 0 | 5,480 | 5,480 |
| Total Restricted | 0 | 395,022 | 2,753,029 | 3,148,051 |
| Assigned to: | | | | |
| Encumbrances | 3,813 | 0 | 0 | 3,813 |
| Budgetary Variance | 766,889 | 0 | 0 | 766,889 |
| Police Equipment | 0 | 0 | 13,456 | 13,456 |
| Total Assigned | 770,702 | 0 | 13,456 | 784,158 |
| Unassigned (Deficit) | 207,192 | 0 | 0 | 207,192 |
| Total Fund Balance | $1,040,848 | $395,022 | $2,904,814 | $4,340,684 |

## Note 16 – Tax Abatements

As of December 31, 2017, the City provides tax abatements through the Community Reinvestment Area (CRA) and Ohio Enterprise Zone Area (EZA) Program:

The Ohio Community Reinvestment Area program (established by Ordinance 66-98) which is an economic development tool administered by the City that provides real property tax exemptions for property owners who renovate existing or construct new buildings. Under Ohio Revised Code section 3765 to 3735.70, a city, village or county can petition the Ohio Department of Development to confirm that investment in a particular geographical area. Once the Department has confirmed the investment in the area, the community may offer real estate tax exemptions to taxpayers who are willing to invest in the area. Up to 12 years may be exempt for commercial and industrial remodeling and up to 15 years may be exempt for new construction. State law requires reimbursement agreements with school districts for tax revenue losses for CRA in place after 1994. It is the City's policy to have reimbursement agreements with school districts for any CRA prior to 1994. Payments in lieu of taxes paid by the property owner directly to the school districts as required by the agreement are not reduced from the total amount of taxes abated.

The Ohio Enterprise Zone Areas (established by Ordinance 13-88) are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investments. EZAs are not part of the traditional zoning program, which limits the use of land, instead they allow local officials to negotiate with businesses to encourage new business investment in the zone. The EZA serves as an additional economic development tool for communities attempting to retain and expand their economic base. The EZA is a contract between the City and the company. The zone's geographic area is identified by the local communities involved in the creation of the zone. Once a zone is defined, the local legislative authority participating in the creation must petition the director of the Development Services Agency. The director must then certify the area for it to become an active Enterprise Zone. Tax incentives are negotiated at the local level, and an enterprise zone agreement must be in place before the project begins. Businesses interested in pursuing these incentives should contact the local Enterprise Zone Manager.

| Tax Abatement Programs | City's Share of Taxes Abated |
|---|---|
| Community Reinvestment Area: | |
| Manufacturing | $35,309 |
| Residential | 44,646 |
| | $79,955 |
| Enterprise Zone Area: | |
| Manufacturing | $297,519 |
| | $297,519 |

The abatements will be terminated if the property is deemed delinquent, behind on payments, or the terms and conditions of the CRA or EZA are not adhered to and no recapture provisions noted.

## Note 17 – Implementation of New Accounting Principles

For the year ended December 31, 2017, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*", GASB Statement No. 81 "*Irrevocable Split Interest Agreements*", and GASB

Statement No. 82, "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73".*

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of the Statement No. 39, "*Determining Whether Certain Organizations Are Component Units".* The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by the employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the City.

## Note 18 – Restatement

Since the 2016 statements did not report a private purpose trust fund, the beginning balance is restated from $0 to $161,528.

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*REQUIRED SUPPLEMENTARY INFORMATION*

City of Shelby, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2017

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Property and Other Taxes | $544,383 | $556,468 | $537,370 | ($19,098) |
| Income Taxes | 2,224,049 | 2,273,423 | 2,195,399 | (78,024) |
| Charges for Services | 1,004,743 | 1,027,048 | 991,800 | (35,248) |
| Investment Earnings | 21,284 | 21,757 | 21,010 | (747) |
| Intergovernmental | 327,203 | 334,467 | 322,988 | (11,479) |
| Fines, Licenses & Permits | 199,586 | 204,017 | 197,015 | (7,002) |
| Other Revenues | 183,253 | 187,321 | 180,892 | (6,429) |
| Total Revenues | 4,504,501 | 4,604,501 | 4,446,474 | (158,027) |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 985,222 | 985,222 | 900,375 | 84,847 |
| Public Safety | 3,234,900 | 3,234,900 | 2,956,312 | 278,588 |
| Community Development | 29,374 | 29,374 | 26,844 | 2,530 |
| Transportation and Street Repair | 44,213 | 44,213 | 40,405 | 3,808 |
| Total Expenditures | 4,293,709 | 4,293,709 | 3,923,936 | 369,773 |
| Excess of Revenues Over (Under) Expenditures | 210,792 | 310,792 | 522,538 | 211,746 |
| Other Financing Sources (Uses): | | | | |
| Transfers (Out) | (425,657) | (425,657) | (389,000) | 36,657 |
| Total Other Financing Sources (Uses) | (425,657) | (425,657) | (389,000) | 36,657 |
| Net Change in Fund Balance | (214,865) | (114,865) | 133,538 | 248,403 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 492,121 | 492,121 | 492,121 | 0 |
| Fund Balance End of Year | $277,256 | $377,256 | $625,659 | $248,403 |

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| City's Proportion of the Net Pension Liability | 0.02129100% | 0.02143600% | 0.02328000% | 0.02328000% |
| City's Proportionate Share of the Net Pension Liability | $4,834,825 | $3,712,985 | $2,807,828 | $2,744,409 |
| City's Covered-Employee Payroll | $2,763,883 | $3,099,067 | $2,863,584 | $3,328,000 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 174.93% | 119.81% | 98.05% | 82.46% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 77.25% | 81.08% | 86.45% | 86.36% |

(1) - Information prior to 2014 is not available

Note - Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| City's Proportion of the Net Pension | | | | |
| Liability - 0561P | 0.0390880% | 0.0407420% | 0.0437964% | 0.0437964% |
| Liability - 0561F | 0.0402580% | 0.0421170% | 0.0441861% | 0.0441861% |
| City's Proportionate Share of the Net Pension Liability | $5,025,696 | $5,330,378 | $4,557,860 | $4,285,024 |
| City's Covered-Employee Payroll | $1,906,684 | $1,811,389 | $1,808,453 | $2,118,167 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 263.58% | 294.27% | 252.03% | 202.30% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 68.36% | 66.77% | 72.20% | 73.00% |

(1) - Information prior to 2014 is not available

Note - Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $353,356 | $331,666 | $371,888 | $343,630 |
| Contributions in Relation to the Contractually Required Contribution | (353,356) | (331,666) | (371,888) | (343,630) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| City's Covered-Employee Payroll | $2,718,123 | $2,763,883 | $3,099,067 | $2,863,584 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.00% | 12.00% | 12.00% | 12.00% |

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
| --- | --- | --- | --- | --- |
| Contractually Required Contribution - Total | $375,376 | $362,270 | $363,908 | $368,201 |
| Contributions in Relation to the Contractually Required Contribution | (375,376) | (362,270) | (363,908) | (368,201) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| City's Covered-Employee Payroll | $1,975,663 | $1,906,684 | $1,811,389 | $1,808,453 |
| Contributions as a Percentage of Covered-Employee Payroll | 19.00% | 19.00% | 20.09% | 20.36% |

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

## Note 1- Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the department level, and then personnel and other within each fund. Budgetary modifications may only be made by resolution of the City Council at the legal level of budgetary control.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the General fund.

### Net Change in Fund Balance

| | General |
|---|---|
| GAAP Basis | $147,119 |
| Revenue Accruals | (2,492,439) |
| Expenditure Accruals | 326,568 |
| Transfers In | 2,195,399 |
| Transfers Out | (9,000) |
| Encumbrances | (34,109) |
| Budget Basis | $133,538 |

## Note 2 – Pension Plans

### Ohio Police and Fire Pension Fund Changes in Benefit Terms and Assumptions

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

### Ohio Public Employees Retirement System Changes in Benefit Terms and Assumptions

There were no recent significant changes of benefit terms, investment policies, the size or composition of the population covered by the benefit terms impacting the actuarial valuation study for the year ended December 31, 2016.

In 2016, a five-year experience study was completed on the period January 1, 2011 through December 31, 2015. The Board adopted changes to both the demographic and economic assumptions as a result of the study. The most notable change in demographic assumptions is an increased life expectancy of the members and the most notable change in economic assumptions is the reduction in the actuarially assumed rate of return from 8.00% down to 7.50% for the defined benefit investments. The new assumptions are included in the 2016 actuarial valuation.

In 2016, OPERS, in conjunction with the Board's investment consultants, also completed an asset liability study. Periodically, the System engages in a more comprehensive study that examines the nature of the pension liabilities we will ultimately pay and the characteristics of the asset allocation projections and the associated level of risk. As a result of this study, OPERS modified the asset allocation slightly, but not substantively.

**CITY OF SHELBY**
**RICHLAND COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| **FEDERAL GRANTOR**<br>*Passed Through Grantor*<br>Program / Cluster Title | Federal<br>CFDA<br>Number | Pass Through<br>Entity Identifying<br>Number | Total<br>Federal<br>Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF TRANSPORTATION** | | | |
| *Passed through the Ohio Department of Transportation* | | | |
| Highway Planning and Construction Cluster | 20.205 | 438669 | $ 1,142,020 |
| **Total U.S. Department of Transportation** | | | **1,142,020** |
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT** | | | |
| *Passed through the Ohio Development Services Agency* | | | |
| Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii | 14.228 | A-C-16-2DQ-1 | 71,425 |
| Home Investment Partnerships Program | 14.239 | A-C-16-2DQ-2 | 165,436 |
| **Total U.S. Department of Housing and Urban Development** | | | **236,861** |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | |
| *Passed through the Ohio Department of Health* | | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 6 B04MC30634-01-01 | 3,000 |
| **Total U.S. Department of Health and Human Services** | | | **3,000** |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | **$ 1,381,881** |

*The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.*

CITY OF SHELBY
RICHLAND COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2017

## NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Shelby, Richland County, Ohio, (the City) under programs of the federal government for the year ended December 31, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 28, 2018, wherein we noted beginning balance in the private purpose trust fund has been restated due to omission of this fund in 2016.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider finding 2017-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2017-002 described in the accompanying schedule of findings to be a significant deficiency.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

### ***City's Response to Finding***

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. We did not audit the City's responses and, accordingly, we express no opinion on them.

### ***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

**Dave Yost**
Auditor of State
Columbus, Ohio

August 28, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

***Report on Compliance for the Major Federal Program***

We have audited the City of Shelby's, Richland County, Ohio (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the City's major federal program for the year ended December 31, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal program.

***Management's Responsibility***

The City's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on the Major Federal Program***

In our opinion, the City of Shelby, Richland County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2017.

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***Report on Internal Control Over Compliance***

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Dave Yost

**Dave Yost**
Auditor of State
Columbus, Ohio

August 28, 2018

**CITY OF SHELBY**
**RICHLAND COUNTY**

**SCHEDULE OF FINDINGS**
**2 CFR § 200.515**
**DECEMBER 31, 2017**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| ***(d)(1)(i)*** | **Type of Financial Statement Opinion** | Unmodified |
| ***(d)(1)(ii)*** | **Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?** | Yes |
| ***(d)(1)(ii)*** | **Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?** | Yes |
| ***(d)(1)(iii)*** | **Was there any reported material noncompliance at the financial statement level (GAGAS)?** | No |
| ***(d)(1)(iv)*** | **Were there any material weaknesses in internal control reported for major federal programs?** | No |
| ***(d)(1)(iv)*** | **Were there any significant deficiencies in internal control reported for major federal programs?** | No |
| ***(d)(1)(v)*** | **Type of Major Programs' Compliance Opinion** | Unmodified |
| ***(d)(1)(vi)*** | **Are there any reportable findings under 2 CFR § 200.516(a)?** | No |
| ***(d)(1)(vii)*** | **Major Programs (list):** | CFDA #20.205 – Highway Planning and Construction Cluster |
| ***(d)(1)(viii)*** | **Dollar Threshold: Type A\B Programs** | Type A: > $ 750,000<br>Type B: all others |
| ***(d)(1)(ix)*** | **Low Risk Auditee under 2 CFR §200.520?** | No |

## 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

### FINDING NUMBER 2017-001

**Financial Statement Presentation**
**Material Weakness**

Sound financial reporting is the responsibility of the Finance Director, Mayor, and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The City does not have sufficient internal controls in place to help ensure receipts, expenditures, and fund balances are properly classified on the financial statements. As result, the following adjustments and reclassifications were made to the City's 2017 financial statements:

- In order to report a Private Purpose Trust fund which was improperly excluded from the City's financial statements, adjustments were required to increase beginning net position by $161,528 and to record earnings on investment of $7,067, miscellaneous receipts of $8,854, and purchased services expenses of $2,610.
- Reclassified $1,142,021 in capital grants and contributions program revenue which was improperly classified as grants and entitlements, not restricted general revenues on the Statement of Activities.

By not ensuring proper financial statement presentation, the City is unable to report accurate financial activity to its constituents.

We recommend the City implement additional procedures to provide assurance over the completeness and accuracy of information recorded in their accounting records and reported within the financial statements. Such procedures may include additional reviews of the financial statements including the notes to the financial statements by a member of management and an analytical comparison of the current year annual report to the prior year annual report for obvious errors or omissions.

**Officials' Response:**

See Corrective Action Plan.

## 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

### FINDING NUMBER 2017-002

**Municipal Court – Monthly Bank Reconciliations**
**Significant Deficiency**

The Municipal Court maintains two bank accounts separate from the City's Treasury through which the collection and disbursement of all moneys for the Municipal Court are made. Monthly bank reconciliations should be performed by the Municipal Court to determine if all receipts and disbursements have been properly posted. Reconciling items should be investigated at the time of the reconciliation and resolved in a timely manner. Documentation supporting all reconciling items should be included with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by management and evidence of these reviews should be documented.

From September 2017 - December 2017, the Clerk of Courts did not complete monthly bank to book reconciliations for the Municipal Court's civil and criminal bank accounts, and consequently management did not review reconciliations.

When bank reconciliations are not properly and timely performed, monthly balances may be understated or overstated and management cannot be assured that the accounting system reflects the proper financial activities of the Municipal Court. Furthermore, lack of management review of monthly bank reconciliations increases the likelihood of errors, irregularities, unauthorized adjustments or the occurrence of theft going undetected.

We recommend the Clerk of Courts reconcile all bank accounts to the accounting system on a timely basis. In this process all reconciling items or errors should be identified and included on the face of the reconciliation. All unreconciled balances should be researched in order to find the known source of the error. All errors should be corrected on the Court's ledgers following the completion of the reconciliation. As a monitoring control, we recommend the monthly bank reconciliation be reviewed and approved by management, and that evidence of these reviews and approvals is documented.

**Officials' Response:**

See Corrective Action Plan.

## 3. FINDINGS FOR FEDERAL AWARDS

None.

Shelby City Hall
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Shelby OHIO EST. 1834

STEVEN L. SCHAG, Mayor
GORDON M. EYSTER, Director of Law
STEVEN T. LIFER, Director of Finance

**CORRECTIVE ACTION PLAN**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|---|---|---|---|
| 2017-001 | The city acknowledges the above findings. The finance director will discuss with the law director the request and await further instructions. Also, capital grants and contributions will be closely monitored on the statement of activities. | November 2018 | Steven Lifer, Director of Finance |
| 2017-002 | The court will be advised to reconcile all bank accounts in a timely fashion. | November 2018 | Shannon Small, Clerk of Courts |

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Shelby OHIO EST. 1834

STEVEN L. SCHAG, Mayor
GORDON M. EYSTER, Director of Law
STEVEN T. LIFER, Director of Finance

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
**2 CFR 200.511(b)**
**DECEMBER 31, 2017**

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2016-001, 2015-001, 2014-001 | Material Weakness – Financial Statement Presentation<br><br>(Finding first occurred in fiscal year 2014.) | Not Corrected | Finding is being repeated in the current audit as Finding 2017-001. The City's financial statements had various errors resulting in material audit adjustments. See Corrective Action Plan. |
| 2016-002 | Schedule of Expenditures of Federal Awards – Material Noncompliance | Corrective Action Taken and Finding is Fully Corrected | |

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**CITY OF SHELBY**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**SEPTEMBER 20, 2018**

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